

FEDERAL DEPOSIT INSURANCE CORPORATION  
WASHINGTON, D.C.

_____	)	
In the Matter of	)	
	)	
CIVIS BANK	)	CONSENT ORDER
ROGERSVILLE, TENNESSEE	)	
	)	FDIC 15-0201b
(Insured State Nonmember Bank)	)	
_____	)	

The Federal Deposit Insurance Corporation (“FDIC”) is the appropriate Federal banking agency for CIVIS BANK, ROGERSVILLE, TENNESSEE (“Bank”), under Section 3(q)(2) of the Federal Deposit Insurance Act (“Act”), 12 U.S.C. § 1813(q)(2).

The Bank, by and through its duly elected and acting board of directors, has executed a “STIPULATION TO THE ISSUANCE OF A CONSENT ORDER” (“STIPULATION”), dated November 13, 2015, that is accepted by the FDIC. With the Stipulation, the Bank has consented, without admitting or denying any charges of unsafe or unsound banking practices relating to weaknesses in capital, asset quality, liquidity, and earnings, to the issuance of this CONSENT ORDER (“ORDER”) by the FDIC.

Having determined that the requirements for issuance of an order under 12 U.S.C. § 1818(b) have been satisfied, the FDIC hereby orders that:

**COMPLIANCE COMMITTEE – NON-EMPLOYEE DIRECTORS REQUIRED**

1. During the term of this ORDER, the Bank’s board of directors shall maintain a committee of the board of directors of the Bank charged with the responsibility of ensuring that the Bank complies with the provisions of this ORDER. At least four of the members of such committee shall be directors not employed in any capacity by the Bank other than as a director. The committee shall report monthly to the full board of directors of the Bank, and a copy of the

report and any discussion relating to the report or the ORDER shall be noted in the minutes of the Bank's board of directors' meetings. The establishment of this subcommittee shall not diminish the responsibility or liability of the entire board of directors of the Bank to ensure compliance with the provisions of this ORDER.

### **MANAGEMENT – BOARD SUPERVISION**

2. During the term of this ORDER, the Bank's board of directors shall maintain its participation in the affairs of the Bank by assuming full responsibility for the approval of the Bank's policies and objectives and for the supervision of the Bank's management, including all the Bank's activities. The Board's participation in the Bank's affairs shall include, at a minimum, monthly meetings in which the following areas shall be reviewed and approved by the board: reports of income and expenses; new, overdue, renewed, insider, charged-off, delinquent, nonaccrual, and recovered loans; investment activities; operating policies; and individual committee actions. The Bank's board of directors' minutes shall document the Board's reviews and approvals, including the names of any dissenting directors.

### **MANAGEMENT**

3. (a) During the term of this ORDER, the Bank shall have and retain qualified management. Each member of management shall possess qualifications and experience commensurate with his or her duties and responsibilities at the Bank. The qualifications of management personnel shall be evaluated on their ability to:

- (1) Comply with the requirements of the ORDER;
- (2) Operate the Bank in a safe and sound manner;
- (3) Comply with applicable laws and regulations; and

- (4) Restore all aspects of the Bank to a safe and sound condition, including improving the Bank's asset quality, capital adequacy, earnings, management effectiveness, liquidity, and sensitivity to market risk.

(b) While this ORDER is in effect, the Bank shall notify the Regional Director of the FDIC's Dallas Region ("Regional Director") and the Commissioner of the Tennessee Department of Financial Institutions ("Commissioner") in writing of any changes in management. The notification must include the name(s) and background(s) of any replacement personnel and must be provided 30 days prior to the individual(s) assuming the new position(s).

#### **BUSINESS PLAN**

4. While this ORDER is in effect, the Bank shall not enter into any new line of business without the prior written consent of the Regional Director and the Commissioner.

#### **BUDGET AND PROFIT PLAN**

5. (a) Within 90 days after the effective date of this ORDER, the Bank shall formulate and submit to the Regional Director and the Commissioner for review and comment a written profit plan ("Profit Plan") and a realistic, comprehensive budget for all major categories of income and expense for calendar year 2016. The Profit Plan required by this paragraph shall contain formal goals and strategies, be consistent with sound banking practices, reduce discretionary expenses, improve the Bank's overall earnings and net interest income, and shall contain a description of the operating assumptions that form the basis for major projected income and expense components.

(b) Within 30 days after the end of each calendar quarter following completion of the Profit Plan and budget required by this paragraph, the Bank's board of directors shall

evaluate the Bank's actual performance in relation to the written Profit Plan and budget, record the results of the evaluation, and note any actions taken by the Bank in the minutes of the board of directors' meeting when such evaluation is undertaken.

(c) A written Profit Plan and budget shall be prepared for each calendar year for which this ORDER is in effect and shall be submitted to the Regional Director and the Commissioner for review and comment within 60 days after the end of each year. Within 30 days after receipt of all such comments from the Regional Director and the Commissioner and after adoption of any recommended changes, the Bank shall approve the written Profit Plan and budget, which approval shall be recorded in the minutes of a board of directors' meeting. Thereafter, the Bank shall implement and follow the Profit Plan.

### **STRATEGIC PLAN**

6. (a) Within 90 days after the effective date of this ORDER, the Bank shall prepare and adopt a comprehensive strategic plan ("Strategic Plan") covering at least three years. The Strategic Plan required by this paragraph shall contain an assessment of the Bank's current financial condition and market area, and a description of the operating assumptions that form the basis for major projected income and expense components.

(b) The written Strategic Plan shall address, at a minimum:

- (1) Strategies for pricing policies and asset/liability management;
- (2) Plans for sustaining adequate liquidity, including back-up lines of credit to meet any unanticipated deposit withdrawals;
- (3) Goals for reducing problem loans;
- (4) Plans for attracting and retaining qualified individuals to fill vacancies that arise in the lending and accounting functions;

- (5) Financial goals, including pro forma statements for asset growth, capital adequacy, and earnings;
- (6) Formulation of a mission statement and the development of a strategy to carry out that mission.

(c) The Bank shall submit the Strategic Plan to the Regional Director and the Commissioner for review and comment. After consideration of all such comments, the Bank shall approve the plan, which approval shall be recorded in the minutes of the Bank's board of directors' meeting. Thereafter, the Bank shall implement and follow the Strategic Plan.

(d) Within 30 days after the end of each calendar quarter following the effective date of this ORDER, the Bank's board of directors shall evaluate the Bank's performance in relation to the Strategic Plan required by this paragraph and record the results of the evaluation, and any actions taken by the Bank, in the minutes of the Bank's board of directors' meeting at which such evaluation is undertaken.

(e) The Strategic Plan required by this ORDER shall be revised and submitted to the Regional Director and the Commissioner for review and comment 60 days after the end of each calendar year for which this ORDER is in effect. Within 30 days after receipt of all such comments from the Regional Director and the Commissioner and after consideration of all such comments, the Bank shall approve the revised Strategic Plan, which approval shall be recorded in the minutes of the Bank's board of directors' meeting. Thereafter, the Bank shall implement the revised Strategic Plan.

### **NON-CONFORMANCE WITH POLICY**

7. Within 90 days after the effective date of this ORDER, the Bank shall address any non-conformance with regulatory policy guidelines noted in the March 30, 2015 Report of Examination.

### **CAPITAL INCREASE AND MAINTENANCE**

8. (a) Within 30 days of the effective date of this ORDER, the Bank shall, after establishing an Allowance for Loan and Lease Losses consistent with accounting and regulatory guidelines, obtain and maintain a Tier 1 Leverage Capital ratio equal to or greater than 8 percent; and shall obtain and maintain a Total Capital ratio equal to or greater than 12 percent. Any increase in the Bank's Tier 1 Capital necessary to meet the capital ratios required by this ORDER may be accomplished by:

- (1) The sale of securities in the form of common stock; or
- (2) The direct contribution of cash subsequent to March 30, 2015, by the directors or shareholder of the Bank; or
- (3) Receipt of an income tax refund or the capitalization subsequent to March 30, 2015, of a bona fide tax refund certified as being accurate by a certified public accounting firm; or
- (4) Any other method approved by the Regional Director and the Commissioner.

(b) If the Bank is unable to obtain the Tier 1 Leverage Capital ratio or the Total Capital ratio required by this ORDER within 30 days of the effective date of this ORDER, or if the Bank fails to maintain such ratios during the term of this ORDER the Bank shall, within 30 days, present to the Regional Director and the Commissioner a capital plan ("Capital Plan") to

increase the Bank's Tier 1 Capital or to take other measures to bring all the capital ratios to the percentages required by this ORDER. After the Regional Director and the Commissioner respond to the Capital Plan, the Bank's board of directors shall adopt the Capital Plan, including any modifications or amendments requested by the Regional Director and the Commissioner.

(c) Thereafter, the Bank shall immediately initiate measures detailed in the Capital Plan, to the extent such measures have not previously been initiated, to increase the Bank's Tier 1 Capital and Total Capital by an amount sufficient to bring all the capital ratios to the percentages required by this ORDER.

(d) If all or part of the increase in Tier 1 Capital required by this ORDER is to be accomplished by the sale of new securities, the Bank's board of directors shall adopt and implement a plan for the sale of such additional securities, including soliciting proxies and the voting of any shares or proxies owned or controlled by them in favor of the plan. Should the implementation of the plan involve a public distribution of the Bank's securities (including a distribution limited only to the Bank's existing shareholders), the Bank shall prepare offering materials fully describing the securities being offered, including an accurate description of the financial condition of the Bank and the circumstances giving rise to the offering, and any other material disclosures necessary to comply with Federal securities laws. Prior to the implementation of the plan, and in any event, not less than 20 days prior to the dissemination of such materials, the plan and any materials used in the sale of the securities shall be submitted to the FDIC, Accounting and Securities Disclosure Section, Washington, D.C. 20429, for review. Any changes requested to be made in the plan or the materials by the FDIC shall be made prior to their dissemination. If the increase in Tier 1 Capital is to be provided by the sale of non-cumulative perpetual preferred stock, then all terms and conditions of the issue shall be presented

to the Regional Director and the Commissioner for prior approval.

(e) In complying with the provisions of this ORDER and until such time as any such public offering is terminated, the Bank shall provide to any subscriber and/or purchaser of the Bank's securities written notice of any planned or existing development or other change which is materially different from the information reflected in any offering materials used in connection with the sale of the Bank's securities. The written notice required by this paragraph shall be furnished within 10 days after the date such material development or change was planned or occurred, whichever is earlier, and shall be furnished to every purchaser and/or subscriber who received or was tendered the information contained in the Bank's original offering materials.

(f) The Capital Plan must include a contingency plan ("Contingency Plan") that shall include a plan to sell or merge the Bank in the event that the Bank:

- (1) Fails to maintain the minimum capital ratios required by the ORDER,
- (2) Fails to submit an acceptable Capital Plan, or
- (3) Fails to implement or adhere to a Capital Plan to which no written objection was provided by the Regional Director and the Commissioner. The Bank shall be required to implement the Contingency Plan only upon written notice from the Regional Director and the Commissioner.

(g) For purposes of this ORDER, all terms relating to capital shall be calculated according to the methodology set forth in Part 324 of the FDIC's Rules and Regulations, 12 C.F.R. Part 324.



### **DIVIDEND RESTRICTION**

9. As of the effective date of this ORDER, the Bank shall not declare or pay any dividend without the prior written consent of the Regional Director and the Commissioner.

### **CLASSIFIED ASSETS - CHARGE-OFF AND PLAN FOR REDUCTION**

10. (a) Within 15 days after the effective date of this ORDER, the Bank shall, to the extent that it has not previously done so, eliminate from its books, by charge-off or collection, all assets or portions of assets classified Loss by the FDIC or the Tennessee Department of Financial Institutions (“State”) as a result of the examination of the Bank as of March 30, 2015. Reduction of these assets through proceeds of loans made by the Bank shall not be considered “collection” for the purpose of this paragraph.

(b) During the term of this ORDER, the Bank shall maintain a written plan to reduce the remaining assets classified Doubtful and Substandard as of March 30, 2015, (“Classified Asset Plan”). The Classified Asset Plan shall address each asset so classified with a balance of \$100,000 or greater. The Classified Asset Plan shall include any classified assets identified subsequent to the March 30, 2015 examination by the Bank internally or by the FDIC or the State in a subsequent visitation or examination. For each identified asset, the Classified Asset Plan should provide the following information:

- (1) The name under which the asset is carried on the books of the Bank;
- (2) Type of asset;
- (3) Actions to be taken in order to reduce the classified asset; and
- (4) Time frames for accomplishing the proposed actions.

The Classified Asset Plan shall also include, at a minimum:

- (1) A review of the financial position of each such borrower, including the source of repayment, repayment ability, and alternate repayment sources; and
- (2) An evaluation of the available collateral for each such credit, including possible actions to improve the Bank's collateral position.

In addition, the Bank's Classified Asset Plan shall contain a schedule detailing the projected reduction of total classified assets on a quarterly basis. Further, the Classified Asset Plan shall contain a provision requiring the submission of monthly progress reports to the Bank's board of directors and a provision mandating a review by the Bank's board of directors.

(c) The Bank shall present the Classified Asset Plan to the Regional Director and the Commissioner for review. Within 30 days after the Regional Director's and the Commissioner's response, the Classified Asset Plan, including any requested modifications or amendments shall be adopted by the Bank's board of directors which approval shall be recorded in the minutes of the meeting of the Bank's board of directors. The Bank shall then immediately initiate measures detailed in the Classified Asset Plan to the extent such measures have not been initiated.

(d) For purposes of the Classified Asset Plan, the reduction of adversely classified assets as of March 30, 2015, shall be detailed using quarterly targets expressed as a percentage of the Bank's Tier 1 Capital plus the Bank's Allowance for Loan and Lease Losses and may be accomplished by:

- (1) Charge-off;

- (2) Collection;
- (3) Sufficient improvement in the quality of adversely classified assets so as to warrant removing any adverse classification, as determined by the FDIC or the State; or
- (4) Increase in the Bank's Tier 1 Capital.

(e) While this ORDER is in effect, the Bank shall eliminate from its books, by charge-off or collection, all assets or portions of assets classified Loss as determined at any future visitation or examination conducted by the FDIC or the State. The Bank shall also update the Classified Asset Plan as needed to reflect any assets subsequently classified as Doubtful or Substandard by the Bank internally or by the FDIC or the State.

#### **RESTRICTION ON ADVANCES TO CLASSIFIED BORROWERS**

11. (a) While this ORDER is in effect, the Bank shall not extend, directly or indirectly, any additional credit to or for the benefit of any borrower whose existing credit has been classified Loss by the FDIC or the State as the result of its examination of the Bank, either in whole or in part, and is uncollected, or to any borrower who is already obligated in any manner to the Bank on any extension of credit, including any portion thereof, that has been charged off the books of the Bank and remains uncollected.

(b) While this ORDER is in effect, the Bank shall not extend, directly or indirectly, any additional credit to or for the benefit of any borrower whose extension of credit is classified Doubtful and/or Substandard by the FDIC or the State as the result of its examination of the Bank, either in whole or in part, and is uncollected, unless the Bank's board of directors has signed a detailed written statement giving reasons why failure to extend such credit would be detrimental to the best interests of the Bank. The statement shall be placed in the appropriate

loan file and included in the minutes of the applicable board of directors meeting.

(c) The requirements of this paragraph shall not prohibit the Bank from renewing credit already extended to a borrower after full collection, in cash, of interest due from the borrower.

### **NONACCRUAL LOANS**

12. While this ORDER is in effect, the Bank shall ensure nonaccrual loan practices are consistent with Reports of Condition and Income Instructions and forgone interest is handled correctly when a loan is returned to accrual status.

### **ALLOWANCE FOR LOAN AND LEASE LOSSES**

13. (a) During the term of this ORDER, the Bank shall maintain a reasonable Allowance for Loan and Lease Losses (“ALLL”). As needed, the ALLL shall be funded by charges to current operating income, and should be calculated in accordance with generally accepted accounting standards and ALLL supervisory guidance. Prior to the end of each calendar quarter, the Bank’s board of directors shall review the adequacy of the Bank’s ALLL. Such reviews shall include, at a minimum, the Bank’s loan loss experience, an estimate of potential loss exposure in the portfolio, trends of delinquent and non-accrual loans, and prevailing and prospective economic conditions. The minutes of the Bank’s board of directors’ meetings at which such reviews are undertaken shall include complete details of the reviews and the resulting recommended increases in the ALLL.

(b) During the term of this ORDER, the Bank must use Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Numbers 450 and 310 (“Number 450” and “Number 310” respectively) for determining the Bank’s ALLL adequacy. Provisions for loan losses must be based on the inherent risk in the Bank’s loan portfolio. The

directorate must document with written reasons any decision not to require provisions for loan losses in the board minutes.

### **LOAN COMMITTEE AND LOAN REVIEW REQUIREMENTS**

14. (a) During the term of this ORDER, the Bank's board of directors shall maintain a loan review committee to periodically oversee the process of identifying, reviewing, and categorizing problem credits. The committee shall review and approve the Bank's internal problem loan report and file a report with the board of directors at each board meeting. The loan review committee's report to the board shall include the following information:

- (1) The overall quality of the loan portfolio;
- (2) The identification, by type and amount, of each delinquent loan;
- (3) The identification of all loans not in conformance with the Bank's lending policy; and
- (4) A copy of the Bank's internal watch list which has been reviewed by the loan review committee and updated as needed.

(b) At least three members of the loan review committee shall be directors not employed in any capacity by the Bank other than as a director.

(c) At least quarterly, the loan review committee will review the scope of any internal and external loan reviews conducted and verify that the scope of the Bank's review is consistent with internal Bank policy guidelines.

15. Within 60 days of the effective date of this ORDER, the board of directors shall implement procedures which ensure that the internal and external loan review scope includes the retained and unguaranteed portions of Small Business Administration ("SBA") and United States Department of Agriculture ("USDA") loans. Procedures will ensure that at least 25 percent of

retained SBA and USDA loans are subject to independent loan review annually.

16. Within 60 days of the effective date of this ORDER, the board of directors shall implement procedures which ensure that the board of directors receives a SBA and USDA lending program report quarterly. The quarterly SBA and USDA report shall include, at a minimum, the following:

- (a) Information pertaining to the profitability of the SBA and USDA program during the reported time period;
- (b) The number and volume of new SBA and USDA loans;
- (c) The aggregate volume of retained and unguaranteed SBA and USDA loans in relation to Total Capital;
- (d) Stratification of the SBA and USDA portfolio by geographic location (state) and industry; and
- (e) A listing of SBA and USDA related loans graded Substandard or Doubtful including the amount of the loan.

### **CONCENTRATIONS**

17. (a) Within 90 days after the effective date of this ORDER, the Bank shall formulate and submit to the Regional Director and the Commissioner for review and comment a written plan ("Maintenance Plan") to manage the volume of out-of-area retained and unguaranteed SBA and USDA loans in relation to Total Capital such that this exposure does not exceed the level calculated as of March 30, 2015. The Maintenance Plan shall include, but not be limited to:

- (1) A definition of out-of-area loans that is consistent with the Bank's defined primary trade area in the internal Loan Policy;

- (2) Strategies and procedures to accomplish the goals set forth in this provision; and
- (3) Provisions for the submission of monthly written progress reports to the Bank's board of directors for review and notation in minutes of the meetings of the Bank's board of directors.

(b) Within 90 days after the effective date of this ORDER, the Bank shall formulate and submit to the Regional Director and the Commissioner for review and comment a written plan ("Concentration Reduction Plan") to reduce the individual borrower concentrations identified in the Report of Examination as of March 30, 2015, to not more than 25 percent of the Bank's Total Capital. The Concentration Reduction Plan shall include, but not be limited to:

- (1) Strategies and procedures to accomplish the goals set forth in this provision;
- (2) Quarterly targets expressed in dollars and as a percent of Total Capital; and
- (3) Provisions for the submission of monthly written progress reports to the Bank's board of directors for review and notation in minutes of the meetings of the Bank's board of directors.

(c) After the Regional Director and the Commissioner have responded to the Maintenance Plan and the Concentration Reduction Plan, the Bank's board of directors shall adopt the Maintenance Plan and the Concentration Reduction Plan as amended or modified by the Regional Director and the Commissioner. The Maintenance Plan and the Concentration Reduction Plan shall be implemented immediately to the extent that the provisions of the Maintenance Plan and the Concentration Reduction Plan are not already in effect at the Bank.

## **LIQUIDITY/ASSET-LIABILITY MANAGEMENT**

18. (a) Within 60 days after the effective date of this ORDER, the Bank shall review the existing Liquidity Plan and, based upon such review, shall make any necessary revisions to the Liquidity Plan to maintain adequate provisions to meet the Bank's liquidity needs. Annually thereafter, while this ORDER is in effect, the Bank shall review the Liquidity Plan for adequacy and make revisions to the Liquidity Plan as necessary to meet the Bank's liquidity needs. The Liquidity Plan shall include, at a minimum, provisions:

- (1) Identifying the source and use of borrowed and/or volatile funds;
- (2) Establishing lines of credit at correspondent banks, including the Federal Reserve Bank, that would allow the Bank to borrow funds to meet depositor demands if the Bank's other provisions for liquidity proved to be inadequate;
- (3) Requiring the retention of securities and/or other identified categories of investments that can be liquidated within one day in amounts sufficient (as a percentage of the Bank's total assets) to ensure the maintenance of the Bank's liquidity posture at a level consistent with short- and long-term liquidity objectives;
- (4) Establishing a minimum liquidity ratio and defining how the ratio is to be calculated;
- (5) Establishing contingency plans by identifying alternative courses of action designed to meet the Bank's liquidity needs;
- (6) Addressing the use of borrowings (i.e., seasonal credit needs, match funding mortgage loans, etc.) and providing for reasonable



maturities commensurate with the use of the borrowed funds; addressing concentration of funding sources; and addressing pricing, collateral requirements, and potential regulatory restrictions with specific allowable funding channels (i.e., brokered deposits, internet deposits, Federal funds purchased and other correspondent borrowings); and

- (7) Establishing procedures for managing the Bank's interest rate risk which comply with the Joint Agency Statement of Policy on Interest Rate Risk (June 26, 1996), as clarified by the January 6, 2010 Advisory on Interest Rate Risk Management, and the Supervisory Policy Statement on Investment Securities and End-user Derivatives Activities (April 23, 1998).

(b) After any revisions to the Liquidity Plan, the Bank shall present the Liquidity Plan to the Regional Director and the Commissioner for review. Within 30 days after the receipt of all such comments from the Regional Director and the Commissioner, and after revising the Liquidity Plan as necessary, the Bank shall adopt the Liquidity Plan, which adoption shall be recorded in the minutes of a board of directors' meeting. Thereafter, the Bank shall implement the Liquidity Plan.

### **PROGRESS REPORTS**

19. Within 30 days after the end of each calendar quarter following the effective date of this ORDER, the Bank shall furnish to the Regional Director and the Commissioner written progress reports signed by each member of the Bank's board of directors detailing the actions taken to secure compliance with the ORDER and the results thereof. Such reports may be

discontinued when the corrections required by this ORDER have been accomplished and the Regional Director and the Commissioner have released, in writing, the Bank from making further reports.

### **NOTIFICATION TO SHAREHOLDERS**

20. After the effective date of this ORDER, the Bank shall send a copy of this ORDER, or otherwise furnish a description of this ORDER, to its shareholders (1) in conjunction with the Bank's next shareholder communication, and also (2) in conjunction with its notice or proxy statement preceding the Bank's next shareholder meeting. The description shall fully describe the ORDER in all material respects. The description and any accompanying communication, statement, or notice shall be sent to the FDIC, Accounting and Securities Disclosure Section, Washington, D.C. 20429, for review at least 20 days prior to dissemination to shareholders. Any changes requested by the FDIC shall be made prior to dissemination of the description, communication, notice, or statement.

The provisions of this ORDER shall not bar, estop, or otherwise prevent the FDIC, the State, or any other federal or state agency or department from taking any other action against the Bank or any of the Bank's current or former institution-affiliated parties.

This ORDER shall be effective on the date of issuance by the FDIC.

The provisions of this ORDER shall be binding upon the Bank, its institution-affiliated parties, and any successors and assigns thereof.

The provisions of this ORDER shall remain effective and enforceable except to the extent that and until such time as any provision has been modified, terminated, suspended, or set aside by the FDIC.

Issued pursuant to delegated authority.

Dated this 23rd day of November, 2015.

/s/  
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Kristie K. Elmquist  
Regional Director  
Division of Risk Management Supervision  
Federal Deposit Insurance Corporation